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HARVARD

RRC NEWSLETTER

RUSSIAN RESEARCH CENTER

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INCREASE IN SALE OF GOODS AT STATE AND COOPERATIVE STORES, 1983 over 1982

PRODUCT	% INCREASE
Bread products	101
Meat	105
Fish	98
Vegetable oil	110
Margerine	100
Whole milk products	105
Cheese	109
Eggs	103
Sugar	101
Pastries	102
Tea	100
Potatoes	107
Vegetables	106
Fruits & Citrus	118
Clothing	104
Leather footwear	102
Dining sets (china,glass)	100
Soap & Detergents	100
Furniture	104
Refrigerators & freezers	104
Washing machines	105
Vacuums	102
Watches	103
Camera equipment	95
Radios	106
Television sets	106
color sets	110
Tape recorders	105
Bikes & mopeds	103
Motorcycles & scooters	105
Cars	106

IMPROVEMENT IN RETAIL SALES

The first full year of Andropov's control did show a significant improvement in retail sales. Most impressive is the 18% increase in the sale of fruit and citrus fruit. In comparison, in 1982 and 1981, fruit and citrus fruit sales increased 12%. That was a substantial increase, but still far short of what took place under Andropov. Similarly, the increase in vegetables sales was higher in 1983 than it had been in 1982. In fact, except for fish, and dishware, and cameras, retail sales of all products increased, and for the most part increased at a faster rate than had been the case in 1982. Clearly, Andropov went far out of his way to improve the standard of living of the Soviet consumer.

INDUSTRIAL PRODUCTION FIGURES FOR JANUARY 1984

The production statistics for January 1984 have just been received in this country. The last full month of Andropov's regime shows that production of most commodities continued to grow but at a pace that was somewhat lower on the whole than had been attained in January 1983 over 1982. For comparison's sake, we have reproduced the figures for the three Januaries, beginning in 1982 over 1981 and continuing with the figures for 1984 over 1983. It should be remembered that there was an extra Sunday rest day in January 1982, and one more work day in January 1984 than January 1983. Nonetheless, these figures graphically demonstrate how serious conditions were in 1982 under Brezhnev. Under Andropov, in January 1983 the production rate of growth of all items increased dramatically, extra rest day or not. However, especially with, but even without, the extra work day in January 1984 there does seem to be some indication that Andropov was having problems sustaining that increase in production. There were some industries, such as electricity, coal, metal-cutting tools(machine), television set

production and meat production, where the production growth rate increased. In many other instances, however, it fell. The difference is not all that distinct but there are signs that Andropov was beginning to have problems sustaining the high growth rates on top of the very high base that he established for 1983.

Particularly noteworthy of course is the fact that, as we indicated in earlier Newsletters, petroleum production fell. It was one million tons below production in January 1983. That makes it the fourth consecutive month in which petroleum production dropped. However, unlike December 1983, when production had fallen two million tons from the pace set a year earlier, production was down only a million tons in January 1984. Nonetheless this must still be worrisome, even though production did seem to increase in the coal mines.

It now remains to be seen if Chernenko will be able to do any better than Andropov did. Indeed, it should be difficult for him simply to sustain the somewhat weaker momentum of the January 1984 growth rate.

(see page 6)

ARDEN HOUSE

The applications are coming in rapidly for Arden House. If you have not received a copy of the program and application blank and you do want to attend, please let us know immediately before all the spaces are filled.

SEMINAR ON THE SOVIET SPACE EFFORT

In an unusual departure, the Russian Research Center will be sponsoring a seminar on the Soviet space effort. A copy of the program and an application form is enclosed. This is somewhat beyond our normal scope of commercial analysis, but it does promise to be interesting.

CORPORATE SPONSOR SEMINAR ON HUNGARY

As its final Corporate Sponsor seminar of the year, the Russian Research Center will convene a one-day look at Hungary. We hope to look at the political and social develpments as well as the economic side. We expect to have some senior economists and bankers with us directly from Hungary. In addition, there will be several spokesmen from the business community discussing their experiences. An application form and partial program is enclosed.

NEWSLETTER MAILING :

From the increasing number of envelopes containing the monthly Newsletter that are being returned to us, we notice some of you have changed your addresses. We are, therefore, enclosing a self-addressed card that we would like you to fill out and return to us immediately. If your address has changed, or if you are no longer interested in receiving the Newsletter, please indicate so on the card, and we will make the necessary correction on our mailing list or remove your name from it.

CURRENCY FIGURES

Rubles Purchased Per 100	Feb. 1983	Jan. 1984	Feb. 1984
Austrian shilling	4.27	4.02	4.14
U.K. pound	110.21	112.90	113.72
W. German mark	29.83	28.51	29.31
U.S. dollar	71.75	80.30	79.00
French franc	10.54	9.32	9.49
Japanese yen	.306	.342	.338
Italian lira	.051	.047	.047
Swiss franc	35.88	35.77	35.93

The currency exchange figures released by Gosplan for February 1984 show that all currencies have increased in value except for the U.S. dollar and Japanese yen, which decreased, and the Italian lira, which remained the same, over the last month. Over a year's time, only the U.K. pound, U.S. dollar, Japanese yen and Swiss franc increased in value.

The Russian Research Center takes no official stand on any economic or political matter. The views and analyses expressed in the Newsletter are those of the authors directly associated with the article in question, or unless otherwise stated with those of the editor, Marshall I. Goldman.

THE RUSSIAN RESEARCH CENTER 1984

CHERNENKO'S INHERITANCE

By MARSHALL I. GOLDMAN

AFTER having been initially rejected for the post of General Secretary of the Communist Party, Konstantin U. Chernenko must be exultant about the sudden improvement in his political fortunes. But despite his euphoria, he must be intimidated, if not overwhelmed, by the stagnation and lethargy that confront him within the Soviet economy.

Because of the efforts of his predecessor, Yuri Andropov, economic conditions have improved so that today there is little likelihood of any economic collapse. But while Mr. Andropov managed to halt the rot, even he did not attempt to deal with the fundamental restructuring that is so necessary if the Soviet economy is to provide for its people's needs and produce products that are competitive by world standards.

Conceivably, if he had lived longer, Mr. Andropov might one day have taken on the challenge; yet there is good reason to believe that the problems are so intractable that even someone as determined and able as Yuri Andropov would have been unequal to the challenge. Given Mr. Chernenko's past record of live-and-let-live conduct in party affairs, his lack of experience in the economic sphere, his advanced years and his evident poor health, it is hard to see how he will be able to deal with all the tests that await him.

His first chore will be to sustain the growth that Mr. Andropov instituted. Even though that growth — a 3 percent increase in what the Soviet Union defines as the national income consumed and invested — was quite modest by previous Soviet standards, that will not be an easy assignment. Already some danger signals have appeared: Coal production fell last year, and while petroleum output rose for the year as a whole, production during October, November and December fell from the levels attained in the comparable periods of 1982.

It must also be remembered that most of the growth generated by Mr. Andropov was primarily a consequence of his emphasis on discipline and his attack on absenteeism and alcoholism. It will be hard for Mr. Chernenko to build or even continue on that. Moreover, given his association with the cronyism and lethargy that was the hallmark of the Brezhnev Administration, it seems unlikely that Mr. Chernenko will feel comfortable pushing hard on law and order. Conceivably, Mikhial S. Gorbachev, at 52 not only younger but more experienced with economic affairs, might be able to provide the economic insight that Mr. Chernenko lacks.

But what about the main challenge — the need to reduce the emphasis on heavy industry and in its stead to stimulate innovation, increase the production of food and consumer goods and foster the start of the Soviet Union's own high-technology industries? In his speech to the Central Committee accepting his election, Mr. Chernenko said he agreed that "the system of economic management, the whole of our economic machinery, needs a serious restructuring.""

ADMITTEDLY, the unfinished nature of this work may have been due to Mr. Andropov's early incapacity and more likely it reflects how resistant the Soviet economic system is to change. Anyone who attempts to downplay Soviet heavy industry or reduce the share of G.N.P. allocated to military spending threatens the vested interests of the most powerful officials in the Soviet Union. Even Mr. Andropov acknowledged how inflexible these old-time apparatchiks were.

In the eyes of these bureaucrats, structural reform meant disruption and possibly chaos. For example, outdated steel mills would have to be closed; that would mean unemployment. To stimulate new products, factory managers would have to be allowed more freedom of action and more control over prices. Similarly, to stimulate the output of fruits and vegetables, it is necessary to give more flexibility to the peasants. But this would set off price increases and speculation.

The challenge of dealing with the high-technology sector is equally perplexing. Because the high-technology industries are so fast-moving, they are not suited to the slow, methodical ways of the Soviet economy. This, more than anything else, explains why the technology industries in the Soviet Union seem so far behind those of the capitalist world.

But what if the Soviet Union should do the unexpected and somehow increase the production of word processors and personal computers? The existance of a network of word processors, personal computers and electronic mail would pose a near-impossible challenge for the police and their political control. If even now copying machines are viewed as a threat to the political security of the country, word processors and interactive computers, with their potential for underground communications, would be even more of a problem.

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Mr. Chernenko's task is not easy. He will have a hard enough time improving production in the old technology industries, while the new technologies will pose not only a major test of the country's innovative abilities, but also of its political security. These challenges will be difficult under the best of circumstances, and particularly difficult for Mr. Chernenko, a man of too little experience and too many years. ■

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By FRANKLYN D. HOLZMAN

FOREIGN trade plays a smaller role in the Soviet economy than in any other nation except Communist China. Yet it serves important functions, providing Russia with food and technology from the West and acting as a key link in its relations with Eastern Europe. However, as the new Soviet boss, Konstantin U. Chernenko, must realize already, there are problems — although no crises — in both areas.

Expansion of hard-currency trade with the West during the 1970's was, on the whole, successful. Imports rose from $3 billion in 1970 to $26 billion in 1980, and they were financed almost entirely out of current earnings. Soviet net debt in 1982 stood at $10 billion and its debt-service ratio (to current earnings) was only 16 percent, respectable by any standards.

But this performance owes a lot to luck. The explosions in energy and gold prices, plus the enhanced ability of the Middle East oil producers to buy Soviet weapons, added about $20 billion to Soviet foreign exchange

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earnings between 1973 and 1980. Had this not happened, the Soviet Union would have imported less food and machinery, and paid higher rates of interest on a larger debt.

Now, Comrade Chernenko has inherited a less rosy outlook. Soviet petroleum, responsible for more than half of its hard-currency earnings, has reached a production plateau and could fall sharply in the near future. At the same time, petroleum export prices are falling, Soviet domestic oil consumption continues to grow and prices of Soviet imports continue to rise.

The drive to increase output of natural gas will provide some offset to the drop in oil available for export if the latter is not too severe, an issue over which experts differ widely.

Another area where there would seem to be room for improvement is in exports of Soviet manufactured products, especially machinery and equipment. These constitute major exports of all industrialized nations, but amounted to less than 14 percent of total Soviet exports in 1981 and only 6 percent of its hard currency exports. Russian attempts to increase these levels have largely failed.

The problem is systemic. Under Communist central planning, manufacturing enterprises do not have to compete — they are assigned buyers. Since as much as 95 percent of the output of such enterprises is destined for domestic markets, Soviet management has little experience or incentive to meet the quality and technology standards to export successfully in highly competitive world markets. Only a major "decentralizing" economic reform could make a dent in this problem and the likelihood of a successful reform appears remote.

Another possibility of alleviating the hard-currency pinch is to divert exports away from Eastern Europe to the West. The crucial commodity is crude oil, about half of which is still exported to Eastern Europe.

To evaluate the likelihood of this solution, it is necessary to look more closely at Soviet-East European relations. Approximately half of both Soviet and East European trade is intrabloc, but it is very uncompetitive trade. All of these nations would profit if Comecon were dissolved and they became integraded in the lower-cost, higher-quality world market.

The advantages to the Soviet Union of expanding trade with the West at the expense of Eastern Europe are considerable. It currently exports raw materials to Eastern Europe at below world prices and imports from them inferior manufactured products at above world prices. In recent years, the net losses from these price differentials have been estimated at between $10 billion and $20 billion a year. And the losses from accepting inferior manufactured products are also large, though incalculable.

WHY trade with Eastern Europe on such adverse terms? Primarily because the Warsaw Pact is vital to Soviet political and strategic objectives. Trade on favorable terms for Eastern Europe acts as a "sweetener" in a situation that otherwise would have for them no redeeming features.

With hard currency problems developing and, particularly with a tightening of oil supplies, the opportunity costs of being a sugar daddy in intrabloc trade are rising. But disatisfactions in Eastern Europe are also on the rise. Whether to continue as before or change the terms and scale of intrabloc trade is a question Mr. Chernenko will have to address.

Bloc trade poses other problems. Eastern Europe has economic and balance of payments problems illustrated by the fact that each year they have run substantial unplanned trade deficits with the Soviet Union, which have become de facto loans. Finally, because of the inconvertibility of bloc currencies, intrabloc trade must be conducted on a rigid bilaterally balanced basis. This kind of barter reduces the scale and profitability of trade.

For 30 years, attempts have been made without success to get rid of the bilateralism straitjacket. Undoubtedly, these efforts will continue. But, since convertibility requires reforms eliminating central planning, successful efforts are unlikely. ■

THE WALL STREET JOURNAL, FRIDAY, FEBRUARY 24, 1984

Pushed and Pulled, Soviet Leaders Wax Static

By MARSHALL I. GOLDMAN

In his acceptance speech to the Central Committee, Konstantin Chernenko committed himself to a continuation of Yuri Andropov's attack on "slackness and irresponsibility" in the Soviet economy, but he may not be up to the challenge. His success seems all the more problematic given the difficulties even the much more imaginative and able Mr. Andropov had.

Given Mr. Andropov's authority and background as head of the KGB, many waited expectantly for a frontal assault on the system after he rose to power. But when Mr. Andropov's economic experiments were finally announced on July 26, 1983, for implementation Jan. 1, it was hard to see what all the fuss had been about. Few major ministries were involved. Factory managers were urged to take more local initiative but were given little or nothing with which to exercise it. The aborted reforms of the mid-1960s associated with Russian economist Evsei Lieberman were more far-reaching and imaginative. In the 1963-64 experiments, factory managers were authorized to adjust prices at their discretion; none of that here. Thus, little if anything being proposed went beyond what had been attempted 20 years ago.

Like the lion that squeaked, the July 26 pronouncement was clearly a disappointment to those who had been led to expect a bolder and more imaginative experiment. This may to some extent account for what happened next. A confidential working paper prepared by Tatiana Zaslavskaia of the Siberian division of the Soviet Academy of Sciences, prepared on behalf of one of the study commissions set up by Mr. Andropov, was leaked to the American press. It appeared in the Washington Post on Aug. 2, a week after the July 26 announcement, and in the New York Times on Aug. 5. Since leaks of Soviet internal documents to the Western press are not a daily occurrence, it is reasonable to conclude that someone in the political hierarchy may have wanted to highlight the gap between what might have been and should have been, and what actually was adopted.

But the traditionalists also brought pressure to bear. A few days later, on Aug. 15 (one day before he disappeared from public view), Mr. Andropov met with what were officially described as "Party Veterans of the Central Committee of the Communist Party," to ask their support for far-reaching economic reforms.

Since bureaucratic opposition to such reforms is largely responsible for the failure of past efforts, it made good political sense to solicit their support early in the process, not only for the July 26 proposals but for whatever else might be offered in the future. What is noteworthy about Mr. Andropov's meeting, however, is how deferential and even timid he was with these apparatchiks. Official accounts show he all but pleaded for their cooperation and hastened to reassure them that like a good Russian tailor, Soviet officials would measure seven times before cutting the economic cloth. Such bureaucratic caution and modesty are hardly what one would expect from someone with Mr. Andropov's power and professed determination to improve the economy.

The reasons for Mr. Andropov's caution became apparent two days later. Nikolai Baibakov, the chairman of Gosplan, the state planning agency, took what at the time was an all but unprecedented step of calling a news conference to defend the existing system of central planning. In Mr. Baibakov's view, the Soviet economy was doing well, thank you, and was in little need of any tinkering. When asked if he

had seen the Zaslavskaia report, he reportedly replied that he had not, but that if the report had been important, he would have been shown a copy. In effect, the chairman of Gosplan, the one most likely to be affected by any meaningful economic reform, created his own public platform to play down the notion that the economy was in trouble and in need of reform.

That Mr. Andropov should be challenged this way is fascinating enough. What makes it more intriguing is that these difficulties were encountered before Mr. Andropov disappeared in August. This suggests that under the best of circumstances there is determined opposition to any far-reaching economic change. What the Andropov experience highlights, however, is that the system rejects not only economic, but political change as well.

As intriguing as Mr. Andropov's inability to bring about economic change is the way that the system resisted any apparent effort to remove Mr. Andropov, despite the gravity of his illness. Nor was this the first incident of this sort. Leonid Brezhnev's last years were characterized by similar incapacity and infirmity. On one occasion, his staff found it necessary to replace the speech he was inadvertently reading with the one he was supposed to read.

Of all the current members of the Politburo, Konstantin Chernenko is probably the most compliant and least interested in shaking up the establishment. He is, after all, cut from Mr. Brezhnev's mold and the prime example of a colorless party official. Yet given Mr. Andropov's experience, it is hard to see how anyone, no matter how ambitious or how young, will be able to do much more than Yuri Andropov. The Soviet system is not well suited to change.

SUMMARY OF THE CONFERENCE ON AGROBUSINESS PROSPECTS WITH THE SOVIET UNION

The February 6th Corporate Sponsor seminar on Agrobusiness Development with the Soviet Union was attended by possibly the largest crowd yet. There were several members of the North American Export Grain Association in the audience, and on the panel of speakers. The morning panels considered the constraints which the Soviet economic system puts on its agriculture production, in particular their annual problem with inadequate storage of grain, and the prospects and requirements for ameliorating Soviet agriculture. The afternoon panels addressed the Soviet Union's projected need of agricultural imports in the 1980's, and their current Food Program, which seems to be having a gradual impact on overall production and quality of food. The consensus seemed to be that there would be a decrease in the Soviets' use of agribusiness exports from the United States, with the exception of certain technology transfers, in the next decade or so. The final afternoon session considered the lessons of the grain embargo for both the United States and the Soviet Union, as seen by the U.S. government and U.S. businessmen.

Industrial Production Changes for January & February 1982, 1983, & 1984

Product	% Jan. 82 over Jan. 81	% Jan. 83 over Jan. 82	% Jan. 84 over Jan. 83	Production in January 84
Electricity (bil. kw. hrs.)	103.0	103.0	105.0	139.0
Petroleum (incl. gas condens. mil. tons)	99.8	102.0	99.0	52.0
Natural Gas (bil. cu. mtrs.)	106.0	108.0	107.0	49.5
Coal (mil. tons)	97.0	100.2	101.0	62.4
Steel (mil. tons)	95.0	105.0	103.0	13.4
Fertilizer (mil. tons)	96.0	112.0	103.0	2.6
Metal-Cutting Tools (mil. rubles)	101.0	108.0	111.0	191.0
Watches (mils.)	98.0	107.0	96.0	5.6
Radios (1000s)	95.0	115.0	103.0	767.0
Television sets (1000s)	100.00	108.0	110.0	740.0
Paper (1000 tons)	94.0	110.0	105.0	505.0
Cement (mil. tons)	92.0	108.0	102.0	10.8
Meat (1000 tons)	92.0	105.0	108.0	874.0
Margarine (1000 tons)	98.0	111.0	106.0	138.0
Tractors (1000s)	98.0	104.0	102.0	4.3
Automobiles (1000s)			103.0	113.0

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All items in U.S. imports for consumption from USSR,
1979, 1980, 1981, 1982, and 1983

(In thousands of dollars; customs value)

SITC number	Description	1979	1980	1981	1982	1983
0	Food & live animals	1,043	1,814	2,675	5,236	17,488
1	Beverages & tobacco	7,455	5,612	8,446	9,961	11,744
2	Crude mat'l--inedible,not fuel	33,151	15,503	17,820	9,511	11,481
3	Mineral fuels, lubricants, etc	16,113	11,232	106,795	10,356	55,968
4	Oils & fats--animal & veg prod	7	1/	19	5	1
5	Chemicals	67,626	148,038	93,509	117,307	144,417
6	Man'd goods by chief material	161,189	125,812	100,241	60,555	88,031
7	Machinery & transport equip	4,409	3,444	2,387	1,579	3,382
8	Miscellaneous man'd articles	32,128	29,843	2,860	9,053	6,259
9	Commodities & transactions nec	549,728	89,949	22,673	5,230	2,322
	Total	872,849	431,246	357,424	228,792	341,093
	Total, all items imported from USSR	872,849	431,246	357,424	228,792	341,093

1/ Less than $500.

Source: Compiled from official statistics of the U.S. Department of Commerce.

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All items in U.S. domestic exports to USSR,
1979, 1980, 1981, 1982, and 1983

(In thousands of dollars; f.a.s. value)

SITC number	Description	1979	1980	1981	1982	1983
0	Food & live animals	2,282,987	971,744	1,600,140	1,642,161	1,194,996
1	Beverages & tobacco	2,445	2,773	400	2,979	874
2	Crude mat'l--inedible,not fuel	564,166	56,187	59,350	214,249	264,583
3	Mineral fuels, lubricants, etc	23,436	26,473	62,840	90,603	22,571
4	Oils & fats--animal & veg prod	73,395	28,148	56,089	40,565	21,507
5	Chemicals	135,474	31,580	180,220	287,846	239,398
6	Man'd goods by chief material	48,534	34,458	32,871	25,961	29,729
7	Machinery & transport equip	362,535	268,795	300,814	225,458	149,452
8	Miscellaneous man'd articles	109,774	88,880	45,371	59,129	76,422
9	Commodities & transactions nec	1,076	708	722	614	2,419
	Total	3,603,821	1,509,747	2,338,818	2,588,975	2,001,951
	Total, all items exported to USSR	3,603,821	1,509,747	2,338,818	2,588,975	2,001,951

Source: Compiled from official statistics of the U.S. Department of Commerce.